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SUBJECT: GOC COMMITTED TO ADRIATIC LNG PROJECT

Classified By: EconOff Nicholas Berliner for reasons 1.4 b&d.

11. (C) Summary: Croatian Assistant Minister of Economy for Energy Zeljko Tomsic told Econ Off that Croatia remains committed to building an LNG terminal on the Adriatic coast, despite press rumors that the project may be in jeopardy. Tomsic said that the GOC is very concerned about energy security and does not want to become overly-reliant on Russian gas. Tomsic's statements echo those of other senior GOC officials and indicate the high level of support for construction of the facility, tentatively scheduled for completion by 2012. End Summary.

12. (C) Recent rumors in Zagreb have suggested that Croatia's planned LNG terminal on the Adriatic could be threatened as other members of the consortium (OMV, Total, RWE, Geoplin and INA) lose patience with GOC efforts to renegotiate and restructure Croatia's share in the Adria LNG Study Company. INA Senior Adviser Stevo Kolundzic recently told Econ Off that he was worried that efforts to create a new Croatian consortium partner consisting of INA (10%), the state electric monopoly HEP (10%) and the state-owned pipeline operator PlinaCro (5%) were a threat to Croatia's credibility as a reliable partner in the venture. Kolundzic said he could not see a necessary role for HEP and PlinaCro in the venture, as INA's share would provide them with required quantities of gas. He said that he had been confident that the terminal would be built, but for the first time worried that overly-heavy GOC interference could unnerve the other companies.

13. (C) Econ Off met January 23 with Zeljko Tomsic, Assistant Minister of Economy responsible for Energy to discuss the GOC position on the LNG terminal. Tomsic said that the project was not in danger of failing over a disagreement among the partners, noting plans to sign an MOU on the new consortium structure by the end of January. He said that the GOC considers the LNG project to be of strategic importance, which is why the Government decided to push for a larger share. When asked if government interference in the deal would send the wrong signal to the other partners in the consortium, Tomsic replied that he believed they would see benefit in having the GOC involved in the plan as an indication that it has sufficient political support to overcome the likely bureaucratic, political and environmental hurdles that plague any major project in Croatia, much less one of these proportions. However, Tomsic said that despite the GOC's strong support, there were still risk for the project. He said that any pipeline bringing large volumes of gas through the Balkans to Central Europe could undermine the viability of LNG, but that he was confident Croatia would get support for the project from the EU, as it would help the diversification of supply in a region overly-dependent on Russia. Tomsic also noted that competing LNG projects could call into question the need for the Croatian terminal or that the construction of re-gasification terminals could outstrip

the supply of LNG.

¶4. (C) Tomsic also shared his views on the Russian role in the region. He said the GOC was cognizant of Gazprom efforts to acquire downstream assets across Europe. When asked what Gazprom was demanding of Croatia in ongoing negotiations for delivery of an additional 1.5 bcm of gas to Croatia, Tomsic said that the Russian side had pushed for concessions in power generation and local gas distribution. (Note: As Croatia invests in its gas pipeline network, gas distribution companies will be set up in cities that heretofore have not had natural gas.) He said that the Russians were gradually acquiring assets all over the region, so it was only to be expected that their eye would eventually fall on Croatia, despite its still small gas market.

¶5. (C) Comment: The GOC has thus far demonstrated a commitment to building the Adriatic LNG terminal, despite what could be considered clumsiness in its dealing with the consortium. Apart from threats to the commercial viability of the project beyond the GOC's control, the other wild card is potential environmental opposition. However, with the exception of some noises on the margins, there has not yet been any substantial controversy surrounding the terminal, although the project being in its early stages has not yet gathered sufficient media attention to energize potential opponents. In that respect, Tomsic is correct that having GOC involvement in the project will be essential to assuring investors that this project will not share the fate of many other projects in this country that have run aground on the rocks of local opposition. Post will continue to watch this issue closely. End Comment.

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